

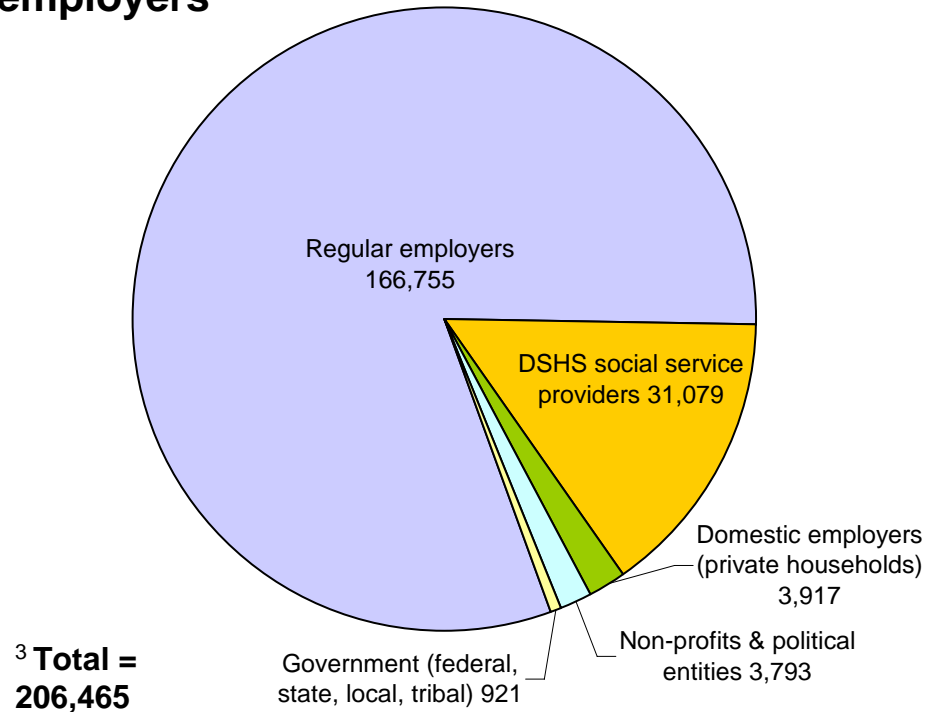
Unemployment Insurance (UI) – Taxes & Benefits

What is the UI program and how big is it?

Background

- The Employment Security Department (ESD) collects Unemployment Insurance (UI) taxes and pays UI benefits.
- The focus of this session will be taxes.¹
- ESD collects about \$1.5 billion² per year in UI taxes from employers.
- Approximately 99 percent of all taxes due from registered employers are consistently paid on time.
- ESD educates employers through telephone contact, with publications, website information, seminars, and during audits.

ESD collects UI taxes from over 200,000 employers



Data Notes: ¹ Information about benefits is available in supplemental slides.

²Source: Tax Information System (TAXIS) and Wage Reports for 01/01/03 – 07/31/06, plus state agency billings.

³Source: Number and type of employers from ESD DataMall as of August 2006. Note – 98.8% of accounts pay UI taxes. A very small percentage (1.2%) of accounts reimburse the Trust Fund for actual benefits paid rather than paying upfront taxes. These are government entities, tribes, and certain non-profit accounts.

Business Compliance Audits

How many audits do we conduct?

Comparison with national average

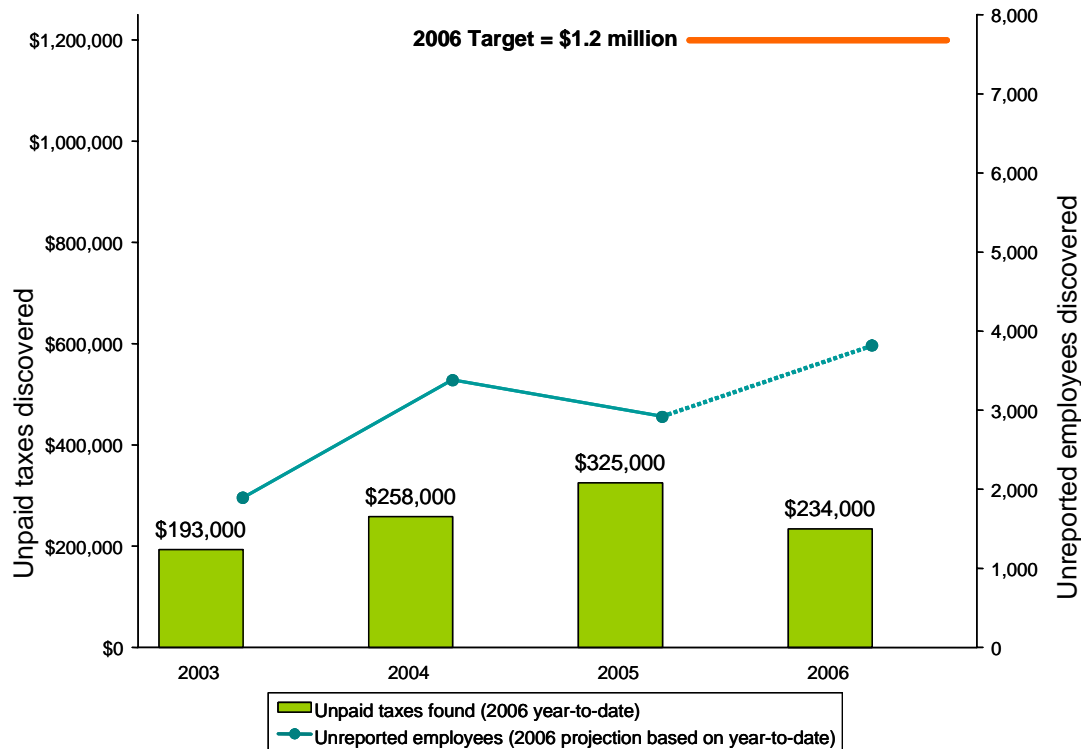
Performance Measure	2003 Results	2004 Results	2005 Results	National Average 2005
Percent of employers audited	2.1%	2.3%	2.2%	1.6%
Number of audits	3,914	4,096	4,163	N/A

Audit volumes

- The federal government requires that two percent of active employer accounts be audited each year.
- In 2005, ESD conducted 4,163 audits – or 2.2 percent of the total active accounts.
- ESD has 84 staff that conduct audits and also perform collection duties; they are not exclusively auditors as in other agencies.

Business Compliance Audits

What have we found and what are our goals?



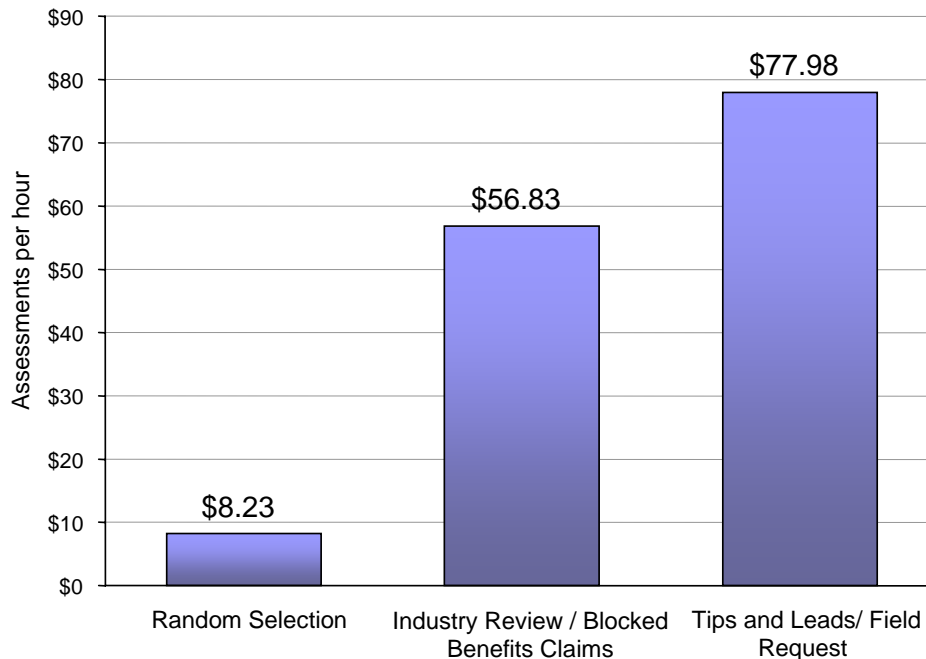
Analysis

- From 2003 to 2005, the amount of unpaid taxes discovered by audits increased from \$193,000 to \$325,000 (68%).
- The number of unreported employees found increased from 1,891 in 2003 to 2,913 in 2005 (54%).
- As of July 2006, more than 90% of agency audits will be targeted. We expect this, in combination with a newly-established investigations unit, to dramatically improve the effectiveness of the program and have set an ambitious target to assess the effectiveness of the new approach.

Business Compliance Audits

How are we improving our audit process?

Targeted audits yield better results



Improvements

- Prior to 2006, audits were primarily random. In 2005, the agency conducted pilots of targeted audits and gathered results.
- During 2006, ESD is making the transition to targeted audits for more effective use of resources.
- 90% of audits will be selected using criteria to focus on those employers more likely to be out of compliance.
- 10% of audits will continue to be random to measure a baseline, and to make sure everyone has a chance of being audited.

Data Notes: *Types of audits: "Industry Review" is the selection of certain industries; "Blocked Benefit Claims" are identified by ESD staff when employees file claims and all or part of their reported wages have not been reported by employers. "Tips and Leads" and "Field Request" are identified by field staff and may be employers who are not in compliance with ESD regulations, or tips received from other taxing agencies. (Data are calendar year 2006 to-date.)*

Business compliance audits

How will we determine which accounts to target?

Methods ESD will use to select targeted audits:

UI benefit claims - a claimant seeks unemployment insurance benefits and his or her wages reported or earned were not reported correctly by the employer	20.0%
Industry trends based on past practices of businesses in a particular industry	25.0%
Cross-matches with L&I, DOR, 1099s, etc.	35.0%
Field and voluntary requests	5.0%
Tips and leads	2.5%
Follow-up audits	2.5%
Random	10.0%
Total	100.0%

Note: these percentages represent the work plan and may be adjusted during the year depending on new information.

Strategies

- One strategy used to select accounts for audit focus is to identify practices that are found in certain industries and audit employers who share those features. For example, some industries have a higher tendency to mis-classify employees, identifying them as independent contractors when they are, by definition, employees upon whom taxes should be paid.
- Often, anomalies in the record will prompt staff to audit an account. For example, large changes in staffing, repeated delinquency, changes in ownership, or missing information.
- Evidence of a repetitive non-compliant employer would prompt an audit, as would information coming to the attention of the department that wages are being paid but not reported or reported incorrectly.

ESD Unemployment Insurance (UI) Tax System

How will the agency track improvements?

DASHBOARD: July 2006 through June 2007		
MEASURE	TARGET	ACTUAL
Unpaid taxes identified	\$5,800,000	
Unreported employees discovered	1,400	
Unreported wages discovered	\$20,000,000	
% of targeted audits assigned	90%	
Timely blocked benefit claim investigations (within 10 days) ¹	70%	
New employer accounts established on time	90%	
% of registered employers audited	2%	

¹ Some employers not available. Military and federal government wages take longer to obtain.